



CRESTSTREET

Wind Energy

2006 CORPORATE PROFILE



OIL > GAS > WIND

Excellence

in energy investing

CORPORATE PROFILE

CRESTSTREET SPECIALIZES IN STRUCTURING AND MANAGING HIGH-QUALITY ENERGY INVESTMENT PRODUCTS FOR CANADIAN AND INTERNATIONAL INSTITUTIONAL AND HIGH NET WORTH INVESTORS. CRESTSTREET HAS TWO PRINCIPAL BUSINESS UNITS: ENERGY INVESTMENT MANAGEMENT AND WINDPOWER PROJECT FINANCING, CONSTRUCTION AND OPERATIONS. SINCE ITS INCEPTION IN 2000, CRESTSTREET HAS RAISED OVER \$640 MILLION FOR INVESTMENT IN RESOURCE AND RENEWABLE ENERGY COMPANIES.



CRESTSTREET

Wind

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> Energy is becoming an increasingly important part of our everyday lives. Tightening energy supply fundamentals coupled with steady growth in global demand will lead to substantial growth in companies involved in all facets of the energy sector in the years ahead. As a leading energy investment management firm in Canada, Creststreet is uniquely positioned to capitalize on this opportunity by leveraging our extensive knowledge of the natural gas, oil and renewable energy sectors to create long-term value for our investors.

Energy





the **wind energy** project life cycle

- > Creststreet has been a pioneer in Canadian windpower investing since it began acquiring flow-through shares of wind energy projects in 2003. We take a three-step approach to financing wind energy projects, providing investors with a wide range of risk and return opportunities.



stage **1**

stage **2**

stage **3**

> **development**

> **construction**

> **operations**

seed LP

construction LP

publicly listed LP



Creststreet Windpower Development LP

Creststreet Kettles Hill Windpower LP

Creststreet Power & Income Fund LP

> 1 to 3 years of development activities

> 12 to 24 months of construction activities

> ownership and operation of completed windpower projects

value creation

highest risk

medium risk

lowest risk

> highest targeted after-tax returns

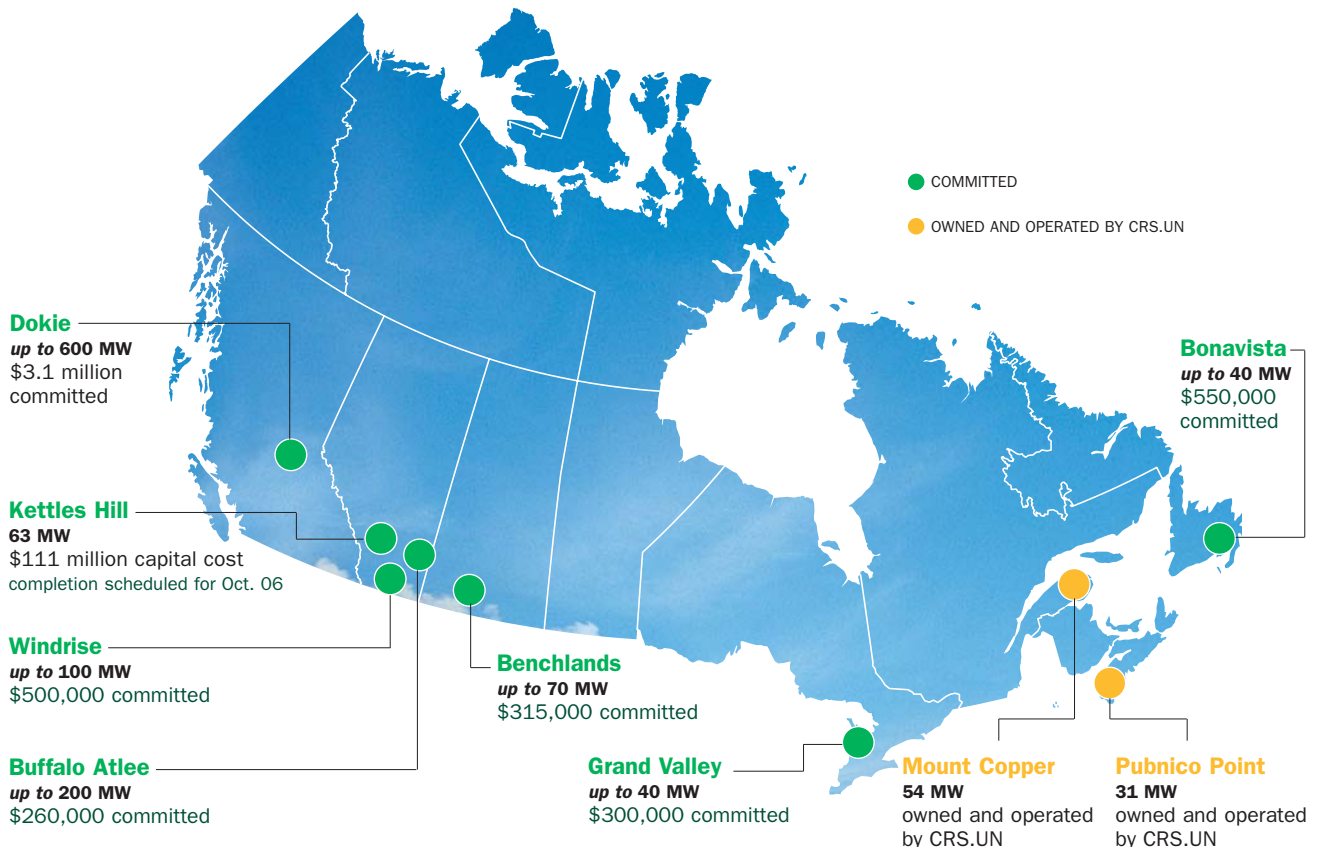
> attractive after-tax returns

> attractive returns with stable distributions

organic growth pipeline

from a portfolio of
premium windpower
development projects

> The Creststreet Power & Income Fund LP has two operating wind energy projects in Quebec and Nova Scotia. Creststreet also has a pipeline of more than 1,000 megawatts under development or construction. In aggregate, these joint ventures have the potential to provide more than 10 times our existing operating wind energy capacity.



Creststreet has consistently delivered strong performance across all its windpower investment products by continuing to follow a conservative, disciplined, long-term value approach to investing.



CRESTSTREET

Excellence in windpower

> Creststreet has proven its ability to combine the financial and operational expertise required to see wind energy projects through from development to construction to operation. Our strategy is to finance the development and construction of wind energy projects independently, isolating the respective risks associated with each stage of a project. Creststreet's end goal is to fuel the growth of our publicly traded income fund, the Creststreet Power & Income Fund LP, principally through accretive acquisitions of operational wind farms whose development and construction phases were financed by Creststreet investors.

To date, the Creststreet Power & Income Fund LP has two operating wind energy projects in Quebec and Nova Scotia. Creststreet also has a pipeline of more than 1,000 megawatts in development or construction, including the Kettles Hill wind energy project which is set to complete its construction phase in the fall of 2006.

We have industry-leading expertise in the science of wind measurement as well as the ability to assess the quality and economic viability of potential windpower development sites, evaluate the suitability and efficiency of various wind turbine technologies, and develop highly innovative project financing strategies.



Creststreet Power & Income Fund LP

- > In 2005, the Creststreet Power & Income Fund LP (CPIF) continued to strengthen its position in the windpower industry by passing a number of important milestones. We completed our Nova Scotia wind farm, Pubnico Point, in February, and commenced full operations and production of wind energy for sale to Nova Scotia Power Inc. Mount Copper, our Quebec wind farm, was completed in June and commenced full operations and production of wind energy for sale to Hydro-Québec.

From a financing perspective, CPIF completed a \$27 million convertible debenture financing in January 2005. It also closed a treasury offering of units in August 2005, raising gross proceeds of \$57.4 million at an issue price of \$8.75 per unit, principally to refinance its construction bank debt. Concurrent with this financing, CPIF listed its units on the Toronto Stock Exchange under the symbol “CRS.UN,” completing all the necessary financing activities for its two wind energy projects in Quebec and Nova Scotia. CPIF unitholders¹ who purchased their units in the Fund’s initial public offering (IPO) in December 2003 would have realized an after-tax return of 18% had they sold their units at the time of the treasury issue – in line with management’s key objective of providing solid returns for unitholders. CPIF initiated monthly cash distributions of \$0.0627 per unit in September 2005 to unitholders of record at August 31, 2005.

The Creststreet Power & Income Fund LP is well positioned to become a leading supplier of renewable energy in Canada.

¹ This example represents an Ontario investor who is taxed at the highest personal marginal tax rate.



operations

stage

3

CPIF is committed to growing its portfolio of wind farms through accretive acquisitions, leveraging our strong pipeline of projects while isolating it from the development and construction risks associated with new projects such as cost overruns and delays. We will also review additional investment opportunities in other power projects that can provide stable distributions and further diversification.

We remain focused on optimizing the operations at each of our windpower projects to ensure current distribution levels are met, working closely with the manufacturer to meet and exceed warranty levels in the turbines' performance.

> Canada's windpower industry at a glance

Windpower government initiatives are under way in several provinces as both the public and private sectors expand their recognition of the environmental benefits, growing productivity and cost effectiveness of windpower.

- > Canada's installed windpower capacity represents less than 2% of its potential wind energy capacity.
- > Windpower is now competitive with full-cycle, natural gas-fired power generation.
- > Canadian provinces are creating policies to promote renewable energy development.
- > Only advanced projects with strong wind resources, proximity to grid infrastructure and local community support are likely to succeed.
- > Excellent opportunity to provide advanced Canadian windpower projects with tax-advantaged pre-construction financing.



Creststreet Kettles Hill Windpower LP

- > In July 2005, Creststreet completed a \$40 million IPO of the Creststreet Kettles Hill Windpower LP to fund the equity required to construct the Kettles Hill windpower project near Pincher Creek, Alberta. The net proceeds of the offering are being used to finance the Canadian Renewable and Conservation Expense (CRCE) Phase of construction, which includes the purchase and installation of five test wind turbines with the related infrastructure including roads, buildings and interconnection transmission facilities with the Alberta electricity transmission grid.

In March 2006, the project entered a 120-day test period required to qualify the expenses for CRCE tax treatment. Upon satisfactory completion of the test period, we will begin construction of the Infill Phase to install and commission Kettles Hill's remaining 30 wind turbines. The remainder of the proceeds of the initial public offering have been earmarked to partially finance this phase of the project. We anticipate that most of the costs incurred during the CRCE Phase will qualify as Canadian Renewable and Conservation Expenses (CRCE), which are 100% tax deductible by Creststreet Kettles Hill Windpower LP unitholders.

In December 2005, Kettles Hill announced a \$31.0 million commitment from Creststreet Power & Income Fund LP to purchase subordinated notes from Kettles Hill. At the same time, Kettles Hill closed a \$42.5 million senior secured debt financing with a major Canadian financial institution, securing all of the necessary funding commitments required to complete construction of the project.



construction

stage 2

- > After completion, we intend to enter into a sale process to provide liquidity for Kettles Hill Windpower LP unitholders. Creststreet Power & Income Fund LP has made a non-binding expression of interest to acquire Kettles Hill upon the project's completion.

> The Alberta power market

The Alberta power market strengthened in the second half of 2005 with power prices averaging \$91.71 per megawatt hour. The outlook for electricity prices remains solid into 2006, averaging \$63.56 per megawatt hour in January and February.



- > Leading independent research firm Chase Energy Canada Limited forecasts energy prices of \$55 per megawatt hour in 2006, rising to the \$60+ per megawatt hour range by 2020. Our outlook for long-term pricing has not changed materially since the IPO, and we believe that Chase's estimates remain reasonable, even though power prices may prove to be stronger in 2006 and 2007.

Creststreet Windpower Development LP

- > Creststreet launched its first windpower development limited partnership in 2004. The Creststreet Windpower Development LP raised \$12 million for investment in nine wind energy projects across Canada through seven joint ventures. In aggregate, these joint ventures can potentially provide over 1,000 megawatts of windpower capacity – more than 10 times the size of the CPIF's current two windpower projects.

Each of these joint ventures is pursuing development in different provinces throughout Canada, and four will be tendering proposals to provincial power utilities in 2006 for Power Purchase Agreements (PPAs) for windpower projects ranging from 20 to 180 megawatts. As these windpower projects move forward, they will be funded through independent development and construction limited partnership financings like Creststreet Kettles Hill Windpower LP. However, CPIF may consider funding the construction phase of smaller windpower projects representing less than one-third of CPIF's existing assets.

As additional wind energy projects are financed by future Creststreet construction stage limited partnerships, CPIF expects to provide an attractive liquidity option to investors in those projects while increasing distributions and enhancing the diversification of the Creststreet Power & Income Fund LP.



development

stage

1

- > We are excited about the future of windpower in Canada, and we believe in the quality of the windpower pipeline that we have targeted for development in the next several years.

> The tax benefits of windpower investments

Similar to the oil and gas industry, windpower development companies can issue flow-through shares that entitle holders to benefit from tax-deductible Canadian Renewable and Conservation Expenses (CRCE) incurred by the wind energy companies.

- > Limited partners who invest in flow-through shares of these companies can benefit from tax deductions of up to 75%. These tax deductions are only applicable to the development and construction phases of wind energy projects.

Tax deductions

up to **75%**

excellence in energy investment management

- > In 2005, Creststreet also continued to deliver strong returns to investors in its other main business unit, energy investment management.

As of January 20, 2006, the Creststreet Resource Fund yielded a one-year return of 34% and a three-year annualized return of 38%. At the time of rollover in January 2006, the net asset value of the Creststreet 2004 Limited Partnership units was \$13.26, making it one of the best performing public flow-through funds to date in Canada. At this net asset value, investors earned total after-tax return of 98%². In May 2005, we launched the Creststreet Energy Hedge Fund LP for accredited investors resident in Canada. Through to December 31, 2005, this fund generated a 45% return.

Since Creststreet's inception in 2000, we have maintained a disciplined, long-term focus on the Canadian energy sector. This focus has been based on our view that energy supplies, particularly for North American natural gas, will become increasingly constrained in the years ahead as declining historical, long-life energy supplies are replaced by new, higher-decline, shorter-life, higher-cost production.

outlook > Creststreet's windpower business is poised to grow again in 2006.

Over the course of the year, we expect to offer investors a second private placement for windpower development as well as a third construction stage windpower flow-through fund.

Creststreet is also well positioned to continue to deliver strong results in our energy investment management business in 2006. This year, we will continue to focus our efforts on growing our energy hedge fund businesses, and we plan to enter the energy income fund management business where we can leverage our proven energy investment expertise to generate superior returns for investors seeking a stable, energy-focused income stream.

Creststreet's consistent, strong investment performance across all our product areas is founded on our conservative, disciplined, value approach to investing. This focus on quality is core to our long-term values and will remain the cornerstone that Creststreet is built upon in the years ahead.



Eric McFadden, MANAGING DIRECTOR
Creststreet Capital Corporation
MARCH 2, 2006

² This example represents an Ontario investor who is taxed at the highest personal marginal tax rate.



CRESTSTREET

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Pivotal Capital Advisory Group

John P.A. Budreski²

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Orion Securities Inc. and Orion Financial Inc.

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Robert S. McLeese¹

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Access Capital Corp.

Donna Shea, C.A.³

Vice-President, Finance and
Chief Financial Officer
Creststreet Capital Corporation

David P. Smith²

Managing Partner
Enterprise Capital Management Inc.

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and Director
Creststreet Asset Management Limited

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Robert J. Toole, C.A.³

President and Chief Executive Officer

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Vice-President, Finance

Erich Ossowski^{2, 3}

Vice-President, Windpower Development

Mark Stewart^{1, 2}

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Sheryl J. Chiddenton³

Secretary and Treasurer

Arlene McLean^{1, 2}

Corporate Secretary

1 Creststreet Power & Income Fund LP
General Partner

2 Creststreet Kettles Hills Windpower LP
General Partner

3 Creststreet Windpower Development LP
General Partner

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Creststreet Kettles Hill Windpower LP

2005 > Annual Report

Management's Discussion and Analysis

For the years ended December 31, 2005 and 2004

(All dollar amounts in thousands except per unit amounts or where otherwise stated)

The following is a discussion of the consolidated financial condition and results of operation of Creststreet Kettles Hill Windpower LP (the "Partnership"). It should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2005. The Partnership prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts in this management's discussion and analysis ("MD&A") are in Canadian dollars unless otherwise stated. Where we say "we," "us," or the "Partnership," we mean Creststreet Kettles Hill Windpower LP.

Certain statements contained in this management's discussion and analysis and elsewhere in this annual report constitute "forward-looking statements" within the meaning of the Securities Act (Ontario). These forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect. Some of these risks and uncertainties as well as additional information are outlined in this management's discussion and analysis.

The Partnership disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law. These cautionary statements expressly qualify all forward-looking statements attributable to the Partnership.

Overview

In July 2005, the Partnership completed its initial public offering ("IPO") of limited partnership units, raising gross proceeds of \$40,000 for investment in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc. ("Kettles Hill"). Kettles Hill is building and will operate a 63 MW wind energy project to generate electricity for sale to the Alberta power market at prevailing market prices. Substantially all of the construction costs for the initial phase of the project (the "CRCE Phase") will qualify as Canadian Renewable and Conservation Expenses ("CRCE") under the Income Tax Act (Canada). CRCE eligible expenses are 100% deductible for income tax purposes and will be flowed through to investors of the Partnership.

Kettles Hill is situated near Pincher Creek, Alberta, approximately 200 kilometres south of Calgary and approximately 20 kilometres east of the Rocky Mountains. The site is adjacent to a 138kV transmission line. Kettles Hill had erected five CRCE Phase test wind turbines by February 2006. These turbines will operate for a 120-day test period and, subject to satisfactory test results, Kettles Hill will erect another 30 wind turbines (the "Infill Phase").

Management's Discussion and Analysis (cont'd)

We used the net proceeds of our IPO to finance the purchase and installation of the CRCE Phase turbines as well as the related infrastructure, including roads, buildings and interconnection transmission facilities with the Alberta electricity transmission grid. Should Kettles Hill proceed with its Infill Phase, we will use the remainder of the proceeds to partially finance the purchase and installation of 30 additional infill turbines and related infrastructure.

Selected Annual Information

	2005	2004
Revenue	\$ 96	\$ -
Loss for the year	(674)	-
Loss per unit	(0.36)	-
Total assets	48,260	-
Long-term liabilities	2,051	-

Results of Operations

Kettles Hill had not started operations at December 31, 2005. The facility began to generate revenue and operating costs upon completion of the construction of the initial five turbines in March 2006.

For the year ended December 31, 2005, we earned \$96 in interest income on short-term investments, paid management fees of \$599 and incurred administrative costs of \$171 related to our operations. Prior to July 11, 2005, the Partnership was inactive.

> Quarterly Financial Information

	Q1	Q2	Q3	Q4	FY 2005
Revenue	\$ -	\$ -	\$ 34	\$ 62	\$ 96
Net loss	\$ -	\$ -	\$ (484)	\$ (190)	\$ (674)
Net loss per unit	\$ -	\$ -	\$ (0.14)	\$ (0.05)	\$ (0.36)

Kettles Hill did not begin commercial production of electricity until the first quarter of 2006, and as such, all revenue earned in 2005 was interest income. During the third quarter of 2005, Kettles Hill earned \$34 in interest income on short-term investments and paid management fees of \$471, including a one-time fee of \$342, upon completion of the IPO.

During the fourth quarter Kettles Hill earned \$62 in interest income on short term investments and paid management fees of \$128.

> Comparison to Financial Projection

The capital costs of Kettles Hill are expected to be approximately \$111,000 which is unchanged from the financial projection in the IPO prospectus. Cost overruns on constructing the project are expected to be offset by the appreciation of the Canadian dollar versus the euro.

At this time the Manager has not updated the 2006 results contained in the financial projection in the IPO prospectus, however, due to the delay in construction of approximately two and a half months, we expect there to be a corresponding reduction in income for this period, which could be partially offset by increased electricity prices in Alberta.



Financial Condition

Liquidity

At December 31, 2005, we had cash and cash held in escrow of \$3,411. Our cash position was the result of the proceeds received from the IPO less amounts incurred for the construction of Kettles Hill, issue costs of the offering and administrative expenses.

Assets and Liabilities

At December 31, 2005, we had total assets of \$48,260, including \$2,904 of cash held in escrow, construction in progress of \$38,702, deferred charges and pre-operating costs of \$2,995, and a net working capital deficiency of \$1,294. The construction in progress related to the five CRCE Phase turbines, along with payments under the Engineering, Procurements and Construction Services ("EPCS") agreement.

On December 19, 2005, Kettles Hill announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42,500 to finance its Infill Phase. In addition, Kettles Hill announced the closing of a commitment by Creststreet Power & Income Fund LP ("CPIF") to invest up to \$31,000 in subordinated notes to complete the financing requirements to fund the completion of the project and to fund any working capital deficiencies. Subsequent to year end \$5,000 has been advanced by CPIF. The credit facilities, totaling \$73,500, are to be used to finance a portion of the costs of construction, ownership and operation of Kettles Hill. Financing costs of \$1,243 were incurred related to the credit facilities and were recorded as deferred charges. We will amortize the financing costs over the term of the debt, commencing on the date we entered into the agreement. As of December 31, 2005, we had amortized \$11 and included it in construction in progress.

Business Acquisition

In 2005, the Partnership acquired 17,771 Class A shares of Kettles Hill for \$23,813, obtaining an 83.15% interest in the assets of Kettles Hill.

Contractual Obligations

Kettles Hill has entered into five lease option agreements for the wind energy project site. Each lease agreement has a term of 25 years, and is renewable for up to 20 years. The annual rent payable under each lease agreement is 2.5% of revenue.

Kettles Hill has entered into a turbine supply agreement with Vestas-Canadian Wind Technology ("Vestas") to purchase up to 35 wind turbines. The turbine supply agreement payments are denominated in Canadian dollars and euros. Option agreements have been entered into to reduce the foreign currency exposure.

Kettles Hill has also entered into a Warranty, Maintenance and Service ("WMS") agreement with Vestas which provides for certain warranties in connection with the wind turbines installed at the wind energy project, and ongoing service and maintenance obligations in connection with the turbines. The WMS agreement includes a facility-wide warranty, which commences only upon substantial completion of the Infill Phase, and is related to power curve performance and availability of the facility. In the event that the facility fails to perform as warranted, the WMS agreement entitles Kettles Hill to liquidated damages to offset any lost revenue. The contract is for a five-year period from the date the turbines come into service. As at December 31, 2005, the total remaining commitment to Vestas to complete the CRCE Phase and WMS agreement was \$3,693.

Kettles Hill has entered into an EPCS agreement with Hatch Optima Ltd. to design all non-turbine related aspects of the project, purchase any non-turbine equipment and manage the construction.

Management's Discussion and Analysis (cont'd)

Kettles Hill has entered into a consulting agreement with Benign Energy Canada Inc. ("BECI"), a shareholder of Kettles Hill. The consulting agreement ends on the date of substantial completion of the Infill Phase. BECI will assist with supervision of the construction and administration of the EPCS and turbine supply agreement. BECI will be paid:

- i.* A consulting fee of \$1,000 of which \$320 is payable upon substantial completion of the CRCE Phase, \$320 upon substantial completion of the Infill Phase and equal monthly installments of \$30 for the 12-month period beginning in August 2005.
- ii.* An incentive fee equal to 25% of any remaining unused budgeted contingency, payable upon substantial completion of the CRCE Phase and Infill Phase.
- iii.* The maximum fee payable to BECI under the consulting agreement is \$1,875. Kettles Hill will also reimburse BECI for any out-of-pocket expenses incurred in providing the services.

Kettles Hill has also entered into a Management Services agreement with BECI to assist in the day-to-day operations of the facility which has an initial term of five years, with automatic renewals unless BECI provides one year's prior written notice of its intention not to renew. Kettles Hill will pay BECI a monthly base fee of \$7 from the substantial completion of the CRCE Phase to the substantial completion of the Infill Phase, after which the monthly base fee will increase to \$17, or \$200 annually, indexed to inflation. BECI will also be reimbursed for certain out-of-pocket expenses.

Derivative Instruments

Kettles Hill entered into four option agreements in 2005 of which one expired on July 5, 2005 with a principal of €20,000 at a cost of \$510, and two additional option agreements in 2006 to purchase euros to reduce its foreign exchange rate exposure on future purchases of wind turbines. The option agreements were not entered into for trading or speculative purposes, and require no future payments.

Date entered	Principal amount	Exercise price	Cost	Expiry date
July 11, 2005	€5,000	C\$1.51/€	C\$168	April 7, 2006
July 11, 2005	€10,000	C\$1.51/€	C\$349	April 28, 2006
July 11, 2005	€5,000	C\$1.51/€	C\$206	June 15, 2006
Feb. 15, 2006	€5,000	C\$1.51/€	C\$28	June 30, 2006
Feb. 21, 2006	€7,000	C\$1.417/€	C\$143	July 31, 2006



Related Party Transactions

Creststreet Kettles Hill Management Limited (the “Manager”) is entitled to a base fee equal to \$40 per month from completion of the IPO until December 31, 2006, payable in equal monthly installments in arrears, and thereafter \$500 per annum increased every 12 months in accordance with the percentage increases in the Canadian Consumer Price Index (“CPI”) plus 25% of any increase in distributions per unit above one dollar per unit, calculated on an annual basis (the “Manager’s Fee”). The Manager has agreed to forfeit the Manager’s Fee if the Partnership is acquired by another entity managed by Creststreet Capital Corporation, such as Creststreet Power & Income Fund LP. The Partnership also paid the Manager a one-time fee of \$320 upon completion of the IPO. The Manager is also entitled to an incentive fee equal to 25% of the remaining unused contingency payable upon substantial completion of the CRCE and Infill Phases, as well as reimbursement of its operating expenses incurred in providing the services under the Management Agreement.

We will reimburse all reasonable costs incurred by the Creststreet Kettles Hill Windpower General Partner Limited (the “General Partner”) in acting as registrar and transfer agent and in attending to the administration of the Partnership.

Kettles Hill entered a Financial Administration agreement with Creststreet Capital Corporation (“CCC”) to maintain the minute books and records of the company and to provide it with other general accounting and cash management services in return for the reimbursement of expenses and a monthly fee of \$1.5 in the first year of the agreement. This fee increases to \$7.5 per month for the remaining term and is subject to adjustments and inflation.

Kettles Hill issued 1,225 non-voting preferred shares to BECI for \$1,225 with a cumulative dividend of 7% per annum. On July 11, 2005, the preferred shares were redeemed at the price of \$1 per share for \$1,225 and \$47 of cumulative dividends were paid out.

For the year ended December 31, 2005, BECI charged Kettles Hill fees of \$180 in accordance with the consulting service agreement.

For the year ended December 31, 2005, the Partnership paid Creststreet Holdings Ltd. (“CHL”) \$64 for the reimbursement of issue costs paid on its behalf.

The amounts paid to related parties are as follows:

	2005		2004
BECI	\$ 1,472	\$	–
Manager	599		–
CHL	64		–
CCC	9		–
	\$ 2,144	\$	–

Management's Discussion and Analysis (cont'd)

Change in Partners' Equity

On July 11, 2005, the Partnership completed its offering of 4 million limited partnership units raising gross proceeds of \$40,000. We paid agents' fees of \$2,700, being 6.75% of the gross proceeds raised through registered dealers, and incurred \$676 in issue costs to complete the offering. Partners' equity was also reduced by the net loss from operations of \$674 for the year ended December 31, 2005.

Outlook

The Manager continues to closely monitor construction of Kettles Hill and as of the date of the MD&A, the project remains on budget. High activity levels in the Alberta construction market will continue to increase construction costs, resulting in incurred and expected cost overruns; however, the depreciation of the euro has provided potential savings on the cost of turbines, offsetting incurred and expected cost overruns. The Manager cautions that currency savings cannot be realized until the commencement of the Infill Phase which is expected to begin in June 2006. The Manager monitors the ability to lock in currency savings through additional hedging.

Kettles Hill completed construction of its CRCE Phase in March 2006, erecting all five CRCE turbines for an aggregate capacity of 9MW of electricity. All production from these turbines will be sold into the Alberta power market at prevailing market prices in March 2006. The project has entered the 120-day test period required to qualify the expenses for CRCE tax treatment. Upon satisfactory completion of the test period, construction of the Infill Phase will begin to install and commission the remaining 30 wind turbines. As a result of a seven week delay in the delivery of towers by the manufacturer, completion of the project is scheduled for October 2006, approximately eight weeks behind schedule and liquidated damages may be payable to Kettles Hill as a result. After completion, we expect to enter into a sale process to provide liquidity for unitholders.

Although Kettles Hill was not in operation, power prices in the Alberta market strengthened in the second half of 2005, averaging \$91.71 per megawatt hour. In 2006, up to February 28, power prices in Alberta have averaged \$63.56 per megawatt hour. The Manager continues to view the independent energy forecast provided in the Partnership's initial public offering prospectus as reasonable despite strengthening in the power market.

On December 19, 2005, Kettles Hill announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42,500 to finance its Infill Phase. In addition, Kettles Hill announced the closing of a commitment by CPIF to invest up to \$31,000 in subordinated notes to complete the funding requirements for completion of the project and to potentially acquire the project after its completion. Subsequent to year-end, CPIF advanced \$5,000 to Kettles Hill.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.



An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of December 31, 2005, by and under the supervision of the Manager, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is processed, summarized and reported within the time periods specified in those rules and forms.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our financial statements.

The Manager has evaluated whether there were changes in our internal controls over financial reporting during the year ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified through management's evaluation or any other means.

Risks and Uncertainties

The Partnership's revenue has exposure to movements in the market price of electricity, as sales to the Alberta power market are likely to be made at prevailing market prices. The market price of electricity is sensitive to cyclical changes in demand and capacity supply, and in the economy, as well as to regulatory trends and developments impacting electricity market rules and pricing, transmission development and investment within Alberta and to the power markets in other jurisdictions via interconnects and other external factors outside of the control of the Partnership and the Manager. Accordingly, the revenue, income and cash of the Partnership may be volatile and adversely affect the value of and distributions from Units.

Construction of the wind energy projects is dependent on turbines being installed and tested. Until the Infill Phase is complete there is a risk that the completion date for the turbines could be delayed or that material cost overruns could be incurred.

Vestas is the only supplier of wind turbines to Kettles Hill and accordingly, the Partnership is dependent upon Vestas fulfilling its contractual obligations to them.

The force with which the wind will blow at the Kettles Hill site will vary, weather patterns could change or the historical data could prove not to accurately reflect the strength and consistency of the wind in the future and have an adverse impact on cash distributions.

The profitability of Kettles Hill will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent power industry. Government regulations and incentives currently have a favourable impact on the building of wind power facilities but should they be modified, cash distributions could be adversely affected.

The operations of the Partnership and Kettles Hill are highly dependent upon parties to certain agreements fulfilling their contractual obligations, especially the turbine supplier, Alberta Electric System Operator, and BECI. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions.

The occurrence of a significant event, which disrupts the ability of Kettles Hill to produce or sell power for an extended period, including events which preclude existing customers from purchasing power, could have a material adverse effect on the Partnership and cash distributions.

While the General Partner believes that the insurance coverage for the facility will address material insurable risks, provide coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and be subject to deductibles, limits, and exclusions which are customary or reasonable given the cost of procuring insurance, current operating conditions and insurance market conditions, there can be no assurance that insurance coverage for Kettles Hill will be sufficient, will address all material insurable risks and will continue to be offered on an economically feasible basis.

There can be no assurance that the income tax laws in the various jurisdictions of Canada, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Limited Partners of holding or disposing of units.

In any fiscal year of the Partnership, the possibility exists that Limited Partners will receive allocations of income and capital gains without receiving cash distributions from the Partnership in such year sufficient to satisfy their tax liability with respect to such allocations.

Limited Partners remain liable to return to the Partnership such part of any amount distributed to them as may be necessary to restore the capital of the Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Partnership is reduced and the Partnership is unable to pay its debts as they become due.

There is no market through which the units may be sold. Following completion of the Infill Construction Phase, an independent committee will solicit, as and when appropriate, opportunities to provide limited partners with liquidity for their units. In accordance with its mandate, the independent committee intends to solicit, within six months after substantial completion of the Infill Construction Phase, offers to purchase the business of the Partnership, including offers from CPIF.



Management's Responsibility for Financial Reporting

These consolidated financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of Creststreet Kettles Hill Windpower LP and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position and results of operations and changes in cash flows. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

Ernst & Young LLP the Partnerships' external auditors, have audited the consolidated financial statements in accordance with Canadian GAAP and their report is included below. Ernst & Young LLP has free and full access to the board's audit committee.

Eric McFadden
President
Chief Executive Officer
Creststreet Kettles Hill Windpower General Partner Limited

Donna Shea
Vice-President, Finance
Chief Financial Officer
Creststreet Kettles Hill Windpower General Partner Limited

March 2, 2006

Auditors' Report to the Partners of Creststreet Kettles Hill Windpower LP

We have audited the consolidated balance sheet of Creststreet Kettles Hill Windpower LP ("the Partnership") as at December 31, 2005, and the consolidated statement of income, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 7, 2005.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
February 24, 2006

**Consolidated Balance Sheets**

(All amounts in thousands)	As at December 31, 2005	As at December 31, 2004
Assets		
Current assets		
Cash	\$ 507	\$ —
Cash held in escrow (Note 5)	2,904	—
Accounts receivable	1,079	—
Prepaid expenses	59	—
	4,549	—
Deferred charges and pre-operating costs (Note 7)	2,995	—
Construction in progress (Note 6)	38,702	—
Goodwill (Note 3)	2,014	—
	\$ 48,260	\$ —
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,696	\$ —
Due to related parties (Note 9)	147	—
	5,843	—
Subordinated note payable (Note 10)	900	—
Future income tax liability (Note 15)	1,151	—
Non-controlling interest (Note 3)	4,416	—
	12,310	—
Partners' equity (Note 12)	35,950	—
	\$ 48,260	\$ —

Commitments (Notes 8 and 9)

See accompanying notes to consolidated financial statements.

Approved by Creststreet Kettles Hill Windpower General Partner Limited on behalf of
Creststreet Kettles Hill Windpower LP

Eric McFadden
Director

John Budreski
Director

Consolidated Income Statements

	Cumulative from inception on January 30, 2004 to and for the year ended December 31, 2005	From inception on January 30, 2004 to December 31, 2004
<i>(All amounts in thousands, except per unit data)</i>		
Revenue		
Interest income	\$ 96	\$ —
Expenses		
Management fees	599	—
Administrative fees	171	—
Total expenses	770	—
Net loss and deficit at end of period	\$ (674)	\$ —
Basic and diluted – net loss per unit	\$ (0.36)	\$ —
Weighted average number of units	1,880	—

See accompanying notes to consolidated financial statements.

Consolidated Statements of Partners' Equity

	Cumulative from inception on January 30, 2004 to and for the year ended December 31, 2005	From inception on January 30, 2004 to December 31, 2004
<i>(All amounts in thousands)</i>		
Partners' equity – beginning of period	\$ —	\$ —
Net loss	(674)	—
Proceeds from initial public offering	40,000	—
Payment of costs of issue	(676)	—
Payment of agents' fees	(2,700)	—
Partners' equity – end of period	\$ 35,950	\$ —

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

	Cumulative from inception on January 30, 2004 to and for the year ended December 31, 2005	From inception on January 30, 2004 to December 31, 2004
<i>(All amounts in thousands)</i>		
Cash flows from operating activities		
Net loss	\$ (674)	\$ —
Non-cash operating working capital		
Increase in accounts receivable	(909)	—
Increase in prepaid expenses	(59)	—
Increase in accounts payable and accrued liabilities	181	—
Increase in amounts due to related parties	147	—
	(1,314)	—
Cash flows from financing activities		
Proceeds from issue of units	40,000	—
Cost of issuing/agent fees	(3,376)	—
Issue of subordinated notes by subsidiary to non-controlling interest	900	—
Increase in financing fees	(1,243)	—
Redemption of preferred shares held by non-controlling interest	(1,225)	—
Preferred share dividend by subsidiary	(47)	—
	35,009	—
Cash flows from investing activities		
Increase in cash held in escrow	(2,904)	—
Expenditures on construction in progress	(28,521)	—
Increase in pre-operating costs	(1,763)	—
	(33,188)	—
Net increase in cash	507	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	\$ 507	\$ —
Supplemental cash information		
Interest and cash taxes paid	\$ —	\$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

As of December 31, 2005 and 2004

(All dollar amounts in thousands, except per unit amounts and where otherwise stated)

1. Business and Structure of the Partnership

Creststreet Windpower (II) LP was established as a limited partnership under the laws of the Province of Ontario on January 30, 2004. Effective on April 28, 2005, Creststreet Windpower (II) LP changed its name to Creststreet Kettles Hill Windpower LP (the "Partnership"). The Partnership was established to invest in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc ("Kettles Hill"), a Canadian company that will construct and then operate a wind energy project to generate electricity for sale to the Alberta power market at then prevailing market prices. At December 31, 2004 the Partnership had issued 10 units for \$10 in cash consideration. The Partnership completed its initial public offering on July 11, 2005 and commenced developmental activities. To date, the Partnership has not earned significant revenues and is considered to be in the development stage.

The Kettles Hill wind energy project is located near Pincher Creek, Alberta. Kettles Hill has erected 5 test wind turbines by March 2006 ("Phase I" or "CRCE Turbine Phase"). Following a 120-day test period, and subject to satisfactory test results during such period, the Partnership intends to exercise its option and erect a further 30 wind turbines ("Phase II" or "Infill Phase").

The general partner of the Partnership is Creststreet Kettles Hill Windpower General Partner Limited ("General Partner"). The General Partner has a 0.01% beneficial interest in the Partnership. The Manager of the Partnership is Creststreet Kettles Hill Windpower Management Limited (the "Manager"), a subsidiary of Creststreet Capital Corporation ("CCC").

These financial statements present the financial position and results of operations of the Partnership and accordingly, do not, and are not intended to, include all the assets, liabilities, revenues and expenses of the partners. No provision has been made for income taxes as the partners are taxable individually on their share of the Partnership's net loss. Tax amounts related to Kettles Hill are incorporated into the financial statements on consolidation.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the following is a summary of significant accounting policies followed by the Partnership:

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Partnership and its subsidiary, Kettles Hill. All significant intercompany transactions and balances are eliminated.

Pursuant to a flow-through share agreement between the Partnership and Kettles Hill, as at December 31, 2005 the Partnership owns 83.15% of the voting shares of Kettles Hill, and Creststreet Windpower Development LP ("CWDLP"), a related party, owns 16.85% of the voting shares of Kettles Hill.

**b. Cash and Cash Equivalents**

Cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired. Cash equivalents are valued at cost plus accrued interest, which approximates market value.

c. Limited Partnership Unit Issue Costs

Costs incurred in connection with the issuance of units are deducted from the proceeds of the offering of units included in Limited Partners' Equity.

d. Construction in Progress

The assets of Kettles Hill are accounted for at cost. Cost includes construction in progress and the cost of acquiring and constructing support facilities and wind turbines. Interest on debt incurred to construct plant and equipment is capitalized during the construction period. The construction in progress will be transferred to plant and equipment once commercial production commences. At the time of transfer, depreciation on a straight-line basis over 20 years will commence.

The Partnership regularly reviews the recoverability of construction in progress through an evaluation of the expected future cash flows from operation of the wind energy project to determine if there has been an impairment in the recoverable amount.

The capital assets will be constructed on leased land. Kettles Hill has entered into five lease option agreements with terms of each lease being 25 years, renewable for up to a further 20 years.

e. Deferred Charges and Pre-operating Costs

Financing costs are deferred and amortized over the term of the related facility, commencing on the date the financing agreement was entered into. Upon early termination of a facility, the unamortized balance of financing cost is written off. The amortization is capitalized to construction in progress during the construction period.

Expenditures that relate directly to placing a new business into service but do not qualify as capital assets occurring during the pre-operating period are capitalized to pre-operating assets. These are being amortized over a five-year period. The pre-operating period begins with the development of the site and will end when commercial operations begin.

f. Revenue Recognition

Revenue from electricity sales is recorded at the time electrical energy is delivered in the Alberta Power Pool. Interest and investment income is recognized as earned.

g. Derivative Instruments

Option agreements are used to reduce foreign currency exposure on construction contracts. Kettles Hill does not enter into option agreements for trading or speculative purposes. However, the option agreements do not qualify for hedge accounting and, as such, are recorded at their fair value on the balance sheet, with changes in fair value deferred under pre-operating assets during the pre-operating period.

Notes to Consolidated Financial Statements (cont'd)

h. Income Taxes

The Partnership is not a taxable entity. Income taxes on its income are the responsibility of the individual partners and have accordingly not been recorded in these consolidated financial statements.

Kettles Hill is a taxable Canadian corporation, subject to federal and provincial income taxes and capital taxes. The corporation accounts for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying value and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected, recovered or settled. A valuation allowance is provided to record the future tax asset at the amount that is more likely than not to be recovered.

i. Non-controlling Interest

Non controlling interest on the balance sheet represents the 16.85% interest held by CWDLP in the Class A voting shares of Kettles Hill at December 31, 2005 and the nominal interest of the Class B non-voting shares of Kettles Hill.

j. Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

k. Loss per Unit

Net loss per unit is calculated by dividing net loss by the weighted-average number of units outstanding during the period. For the purposes of the weighted-average number of units outstanding, units are determined to be outstanding from the date they are issued.

l. Foreign Currency Translation

Monetary assets and liabilities are translated into Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the transaction dates. Revenues and expenses are translated at the average exchange rates prevailing during the year, except for depreciation and amortization, which is translated at exchange rates prevailing when the related assets were acquired. Gains and losses arising from the fluctuations in exchange rates are reflected in earnings.



3. Business Acquisition

During the year, the Partnership acquired from a related party, with common management, 17,771 Class A shares of Kettles Hill for \$23,813. The Class A shares were issued from treasury and resulted in the Partnership obtaining 83.15% interest in the net assets of Kettles Hill.

The acquisition has been recorded at the exchange amount and has been accounted for using the purchase method, and accordingly, the results have been included in the consolidated financial statements since the acquisition date.

During the fourth quarter of 2005, the Partnership completed the allocation of the purchase price for the acquisition. The final allocation of the purchase price, based on management's estimates, is as follows:

Cash	\$	23,813
Other current assets		170
Other long-term assets		6,775
Goodwill		2,014
Current liabilities		(2,120)
Future tax liability		(1,151)
Minority interest		(5,688)
Net assets acquired		23,813
Consideration comprised		
Cash	\$	23,813

As the acquisition of Kettles Hill resulted from the issuance of treasury stock of Kettles Hill, there was no impact on the consolidated statement of cash flows.

4. Option Agreements

During the year, Kettles Hill entered into option agreements to purchase (i) €20,000 at an exercise price of C\$1.5100 per euro for consideration of \$510, expired on July 5, 2005; (ii) €5,000 at an exercise price of C\$1.5100 per euro for consideration of \$168, expiring April 7, 2006; (iii) €10,000 at an exercise price of C\$1.5100 per euro for consideration of \$349, expiring April 28, 2006; (iv) €5,000 at an exercise price of C\$1.5100 per euro for consideration of \$206, expiring on June 15, 2006. As at December 31, 2005, the unrealized foreign exchange loss on these option agreements was \$1,299.

Subsequent to year end, Kettles Hill entered into two additional option agreements. An agreement to purchase €5,000 at an exercise price of C\$1.5100 per euro for consideration of \$28 was entered into on February 15, 2006 and expires on June 30, 2006 and an agreement to purchase €7,000 at an exercise price of C\$1.4170 per € for consideration of \$143 was entered into on February 21, 2006 and expires on July 31, 2006.

These option agreements are used to reduce foreign exchange rate exposure on future purchases of wind turbines and were not entered into for trading or speculative purposes. They do not qualify for hedge accounting and, as such, are recorded at their fair value on the balance sheet.

Notes to Consolidated Financial Statements (cont'd)

5. Cash Held in Escrow

Kettles Hill entered into an escrow agreement dated June 30, 2005 in connection with its obligation of \$4,801 to Vestas-Canadian Wind Technology Inc. ("Vestas") for Phase I turbines. The amount of \$3,201 was to be released when the Phase I turbines were delivered and the remaining \$1,600 will be released once the turbines have been commissioned and the required performance tests have been completed. As at December 31, 2005, \$1,897 had been released from escrow to pay Kettles Hill's obligation to Vestas for Phase I turbines. Subsequent to year end, a further \$1,900 has been released from escrow.

6. Construction In Progress

December 31	2005		2004	
Beginning of period	\$	-	\$	-
Additions		38,702		-
End of period	\$	38,702	\$	-

Amortization for the period ended December 31, 2005 was nil.

7. Deferred Charges and Pre-operating Costs

During the fourth quarter of 2005 Kettles Hill entered into credit facilities with a major Canadian financial institution. The fees charged to enter these facilities totalled \$1,243. Amortization of the deferred financing costs amounted to \$11 for the year ended December 31, 2005, and has been capitalized.

Kettles Hill has capitalized \$1,763 of pre-operating costs in 2005, which will be amortized over a five-year period starting at the completion of Phase I. During 2005 no amortization was taken.

8. Commitments

Kettles Hill has entered into five lease option agreements with respect to the site for the wind energy project. The term of each lease agreement is 25 years, renewable for up to a further 20 years. The annual rent payable under each lease agreement is 2.5% of revenue.

Kettles Hill has entered into a Turbine Supply Agreement with Vestas providing for the purchase of up to 35 wind turbines for a wind energy project facility.

Kettles Hill has also entered into a Warranty, Maintenance and Service agreement ("WMS" Agreement) with Vestas which provides for certain warranties in connection with the wind turbines installed at the wind energy project, and which also provides ongoing service and maintenance obligations in connection with the turbines. The WMS Agreement includes a facility-wide warranty, which commences only on substantial completion of Phase II, related to power curve performance and availability of the facility. In the event that the facility fails to perform as warranted, the WMS Agreement provides that Kettles Hill will be entitled to liquidated damages to offset any lost revenue. The WMS Agreement is for a 5-year period commencing at the date that the turbines come into service. The total commitment to Vestas is \$3,693 to complete Phase I under the Turbine Supply Agreement and the WMS Agreement.



Kettles Hill has entered into an Engineering, Procurement and Construction Services (“EPCS”) agreement with Hatch Optima Ltd. to design all non-turbine related aspects of the project, purchase any non-turbine equipment and manage the construction.

Kettles Hill has entered into an agreement with Plava Ventures Corp. to pay success fees of \$50 upon the closing of Phase I construction financing and another \$50 upon the completion of Phase II construction.

9. Related Party Transactions

Payments to General Partner

The General Partner is reimbursed for reasonable costs incurred by it in acting as registrar and transfer agent and in attending to the administration of the Partnership. During the course of 2005 no payments were made.

Payments to the Manager

The Partnership has entered into a Management Agreement with the Manager dated May 31, 2005. The Manager is entitled to a base fee equal to \$40 per month from completion of the initial public offering until December 31, 2006, and thereafter, \$500 per annum, payable monthly in arrears, and increased every 12 months in accordance with the percentage increases in the Canadian Consumer Price Index (the “CPI”). The Manager is also entitled to an incentive fee per unit outstanding as at December 31 of each year, payable annually, equal to 25% of the amount by which the three-year rolling average of cash distributions (except in 2008, in which cash distributions for the year will be used and in 2009, when the average of cash distributions in 2008 and 2009 will be used), calculated on a per unit basis, exceeds \$1.00 per Unit. The initial term of the agreement is 20 years, automatically renewable for further five-year terms unless terminated under the terms of the Management Agreement.

As part of the Management Agreement, the Manager was paid a one-time fee of \$320 upon completion of the initial public offering.

The Manager is also entitled to reimbursement of its operating expenses incurred in providing the services under the Management Agreement.

Kettles Hill has entered a Financial Administration Agreement dated May 31, 2005 with CCC, a related party with common management, to maintain the minute books and records of the Company and to provide it with other general accounting and cash management services in return for the reimbursement of expenses and a fee of \$1.5 per month in the first year of the agreement, and thereafter, a fee of \$7.5 per month for the remaining term, subject to adjustments and inflation.

Notes to Consolidated Financial Statements (cont'd)

Kettles Hill has entered into a Consulting Service Agreement with a shareholder, Benign Energy Canada Inc. ("BECI"). The Consulting Agreement has a term ending on the date of substantial completion of Phase II. BECI will assist with supervision of the construction and administration of the EPCS and Turbine Supply Agreement. BECI will be paid:

- i.* A consulting fee of \$1,000, of which \$320 is payable upon substantial completion of Phase I, \$320 on substantial completion of Phase II, and equal monthly installments of \$30 each beginning in August 2005 and ending 12 months later.
- ii.* An incentive fee equal to 25% of the remaining unused contingency, payable upon substantial completion of each of Phase I and Phase II. The maximum fee payable to BECI under the Consulting Service Agreement is \$1,875. In addition to this, BECI will be reimbursed for any out-of-pocket expenses incurred in providing the services.

Kettles Hill has entered into a Management Services Agreement with BECI to assist in the day-to-day operations of the facility which has an initial term of five years and will be renewed automatically unless BECI provides one year's prior written notice of its intention not to renew. BECI will be paid a monthly base fee of \$7 from the substantial completion of Phase I until substantial completion of Phase II, following which the monthly base fee shall be increased to \$17, or \$200 annually, indexed to inflation. BECI will be reimbursed for any out-of-pocket expenses. The agreement has an initial term of 5 years, and will be automatically renewed for four additional periods of 5 years, unless terminated in accordance with the agreement.

On October 29, 2004, Kettles Hill issued 1,225 non-voting preferred shares to BECI for \$1,225 with a cumulative dividend of 7% per annum. On July 11, 2005, the preferred shares were redeemed at the price of \$1 per share for \$1,225 and \$47 of cumulative dividends were paid at the same time.

BECI and Creststreet Power Holdings Limited own Class B shares of Kettles Hill. Holders of the Class B shares will be entitled to 5% of revenue (excluding WPPI).

Kettles Hill has entered into a subordinated note with CWDLP for \$900 to finance pre-development costs. Interest is charged at a rate of 10% per annum. As at December 31, 2005, the Partnership incurred and capitalized \$64 of interest expense to CWDLP.

For the year ended December 31, 2005, fees charged by CCC, the Manager and General Partner in accordance with the Management Agreement and Financial Administration Agreement amounted to \$608.

For the year ended December 31, 2005, Creststreet Holdings Limited. ("CHL"), a related party with common management, was paid \$64 to reimburse costs paid on behalf of the Partnership.

For the year ended December 31, 2005, fees charged by BECI in accordance with the Consulting Service Agreement amounted to \$180.



The amounts due to related parties as at December 31, 2005 are as follows:

December 31	2005		2004	
Due to CCC	\$	43	\$	–
Due to CWDLP		104		–
	\$	147	\$	–

The amounts paid to related parties are as follows:

December 31	2005		2004	
BECI	\$	1,472	\$	–
Manager		599		–
CHL		64		–
CCC		9		–
	\$	2,144	\$	–

10. Credit Facilities

On December 19, 2005, Kettles Hill announced the closing of a \$42,500 credit facility to finance a portion of the construction of the Infill Phase with a major Canadian financial institution. In addition, Kettles Hill closed a commitment by Creststreet Power & Income Fund LP, a related party with common management, to invest up to \$31,000 in subordinated notes to complete the funding requirements of the project, and an option to potentially acquire ownership of the project after completion of construction expected in late summer of 2006.

Facility	Available credit	Amount advanced	Interest	Maturity
Subordinated notes – Creststreet Power & Income Fund LP	\$ 31,000	\$ –	8.25%	October 31, 2009
Credit facility Tranche A	22,500	–	To be determined one day prior to advances	December 31, 2008
Tranche B	20,000	–	To be determined one day prior to advances	December 31, 2016
Total	\$ 73,500	\$ –		

The credit facilities contain customary representations, warranties and covenants (including financial covenants and restrictions on incurring additional indebtedness). Collateral for the credit facilities is provided by a first priority security interest in the assets of Kettles Hill.

Advances under the subordinated notes will be provided in up to four installments. The first three advances, in aggregate of up to \$6,000, will be advanced a maximum of once per month from December 1, 2005 to March 31, 2006 and the final advance up to the balance of the \$31,000 on or before May 31, 2006. Subsequent to year-end, \$5,000 was advanced.

Notes to Consolidated Financial Statements (cont'd)

The entire amount of Tranche B will be advanced as a construction loan approximately 120 days after completion of Phase I ("the First Advance Date"). The First Advance Date is expected to occur in June 2006 but no later than June 30, 2006. Tranche A will be advanced as a construction loan after the First Advance Date and before the completion of construction of the Infill Phase. Amounts not drawn by the earlier of the completion of construction of the Infill Phase and December 31, 2006 will be cancelled. All outstanding amounts in the construction loan will be converted to a term loan upon completion of the construction of the Infill Phase.

Repayment of the credit facility is interest only until maturity. Interest will be based on the Long Bond Yield plus a credit spread, compounded and payable monthly in arrears. The Long Bond Yield for Tranche A is the mid-market semi-annual interpolated yield of the Government of Canada 6% Bond due June 1, 2008 and the Government of Canada 5.5% Bond due June 1, 2009 based on a term to maturity ending approximately on December 31, 2008. The Long Bond Yield for Tranche B is the mid-market semi-annual interpolated yield of the Government of Canada 4.5% Bond due June 1, 2015 and the Government of Canada 9.25% Bond due June 1, 2022 based on a term to maturity ending approximately on December 31, 2016.

The credit spread is:

Credit Spread	To December 31, 2008	After December 31, 2008
Tranche A	200 bps	N/A
Tranche B	200 bps	175 bps

As at December 31, 2005, the rate for both Tranche A and B after the credit spread would have been approximately 6%.

The payment of the principal of, and interest on, the subordinated notes is fully subordinated to the credit facility. The payment of interest on the subordinated notes will rank in priority to the payment of interest only on other subordinated indebtedness and the payment of principal on the subordinated notes will rank pari passu with the payment of principal on other subordinated indebtedness of Kettles Hill.

11. Flow-through Shares

Resource expenditure deductions for income tax purposes related to development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, shareholders' equity of Kettles Hill will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable as a result of the renunciations, when the renunciations are made. Renunciations made during 2005 resulted in a future tax liability of \$1,151.

12. Sale of Units

On July 11, 2005 the Partnership issued 4,000,000 voting limited partnership units for a total consideration of \$40,000 before the deduction of issuance costs. The Partnership paid agents' fees of \$2,700, being 6.75% of the gross proceeds raised through registered dealers, and incurred \$676 in issue costs to complete the offering.



13. Financial Instruments

At December 31, 2005 the carrying amount of cash, cash held in escrow, accounts receivable, accounts payable and due to related parties approximates fair value due to their short-term nature. The option agreements had a nominal fair value.

At December 31, 2005, the carrying amount of the subordinated notes payable approximates fair value due to the short period of the time that has elapsed between finalizing the terms of the agreements at the period end date.

The Partnership is exposed to foreign currency fluctuations, to the extent that purchases are denominated in foreign currencies.

The Partnership's credit facilities bear interest based on Long Bond Yield plus a credit spread, and therefore are subject to risks related to interest rate fluctuations.

14. Indemnification

Generally, it is not the Partnership's policy to issue guarantees to non-controlled affiliates or third parties, with limited exceptions.

Many of the Partnership's agreements, specifically those related to financing, include indemnification provisions where the Partnership may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Partnership could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. At December 31, 2005, management does not believe that these indemnification provisions would require any material cash payment by the Partnership.

15. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2005 are presented below:

December 31		2005
Kettles Hill – Future tax liabilities due to renunciations	\$	1,151

16. Subsequent Event

Completion of Kettles Hill Phase I construction occurred in March 2006 at which time all CRCE turbines with an aggregate capacity of 9MW will be in operation. All production is sold into the Alberta power market at prevailing market prices. The project entered a 120-day test period required to qualify the expenses for Canadian Renewable and Conservation Expense ("CRCE") tax treatment. Upon satisfactory completion of the test period, the Partnership intends to install and commission the remaining 30 wind turbines at Kettles Hill. Completion of the entire project is scheduled for October 2006.

Creststreet Kettles Hill Windpower General Partner Limited

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President and Chief Executive Officer,
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Orion Financial Inc.

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Managing Director
Creststreet Capital Corporation

David P. Smith*

Managing Partner, Enterprise
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Creststreet Capital Corporation

* Audit Committee Members

Officers of the General Partner

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President and Chief Executive Officer

Donna Shea, C.A.

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Mark Stewart, C.A.

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